

PALOMAR COMMUNITY COLLEGE DISTRICT

Audit Report

HEALTH FEE ELIMINATION PROGRAM

Chapter 1, Statutes of 1984, 2nd Extraordinary Session,
and Chapter 1118, Statutes of 1987

July 1, 2002, through June 30, 2006



JOHN CHIANG
California State Controller

November 2010



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California State Controller

November 30, 2010

Michele Nelson, Ph.D., President
Governing Board
Palomar Community College District
1140 West Mission Road
San Marcos, CA 92069

Dear Dr. Nelson:

The State Controller's Office audited the costs claimed by Palomar Community College District for the legislatively mandated Health Fee Elimination Program (Chapter 1, Statutes of 1984, 2nd Extraordinary Session, and Chapter 1118, Statutes of 1987) for the period of July 1, 2002, through June 30, 2006.

The district claimed \$766,322 for the mandated program. Our audit disclosed that \$52,018 is allowable and \$714,304 is unallowable. The costs are unallowable because the district understated salaries, benefits, and services and supplies; overstated indirect costs; understated authorized health service fees; and understated offsetting savings/reimbursements. The State paid the district \$118,053. The amount paid exceeds allowable costs claimed by \$66,035.

If you disagree with the audit findings, you may file an Incorrect Reduction Claim (IRC) with the Commission on State Mandates (CSM). The IRC must be filed within three years following the date that we notify you of a claim reduction. You may obtain IRC information at the CSM's Web site at www.csm.ca.gov/docs/IRCForm.pdf.

If you have any questions, please contact Jim L. Spano, Chief, Mandated Cost Audits Bureau, at (916) 323-5849.

Sincerely,

Original signed by

JEFFREY V. BROWNFIELD
Chief, Division of Audits

JVB/sk

cc: Robert P. Deegan, Superintendent/President
Palomar Community College District
Bonnie Ann Dowd, Vice President
Finance and Administrative Services
Palomar Community College District
Phyllis Laderman, Director
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Audit Report

Summary

The State Controller's Office (SCO) audited the costs claimed by Palomar Community College District for the legislatively mandated Health Fee Elimination Program (Chapter 1, Statutes of 1984, 2nd Extraordinary Session, and Chapter 1118, Statutes of 1987) for the period of July 1, 2002, through June 30, 2006.

The district claimed \$766,322 for the mandated program. Our audit disclosed that \$52,018 is allowable and \$714,304 is unallowable. The costs are unallowable because the district understated salaries, benefits, and services and supplies; overstated indirect costs; understated authorized health service fees; and understated offsetting savings/reimbursements. The State paid the district \$118,053. The amount paid exceeds allowable costs claimed by \$66,035.

Background

Chapter 1, Statutes of 1984, 2nd Extraordinary Session (E.S.) repealed Education Code section 72246 which authorized community college districts to charge a health fee for providing health supervision and services, providing medical and hospitalization services, and operating student health centers. This statute also required that health services for which a community college district charged a fee during fiscal year (FY) 1983-84 had to be maintained at that level in FY 1984-85 and every year thereafter. The provisions of this statute would automatically sunset on December 31, 1987, reinstating the community college districts' authority to charge a health service fee as specified.

Chapter 1118, Statutes of 1987, amended Education Code section 72246 (subsequently renumbered as section 76355 by Chapter 8, Statutes of 1993). The law requires any community college district that provided health services in FY 1986-87 to maintain health services at the level provided during that year for FY 1987-88 and for each fiscal year thereafter.

On November 20, 1986, the Commission on State Mandates (CSM) determined that Chapter 1, Statutes of 1984, 2nd Extraordinary Session imposed a "new program" upon community college districts by requiring specified community college districts that provided health services in FY 1983-84 to maintain health services at the level provided during that year for FY 1984-85 and for each fiscal year thereafter. This maintenance-of-effort requirement applied to all community college districts that levied a health service fee in FY 1983-84.

On April 27, 1989, the CSM determined that Chapter 1118, Statutes of 1987, amended this maintenance-of-effort requirement to apply to all community college districts that provided health services in FY 1986-87, requiring them to maintain that level in FY 1987-88 and for each fiscal year thereafter.

The program's parameters and guidelines establish the state mandate and define reimbursement criteria. CSM adopted parameters and guidelines on August 27, 1987, and amended them on May 25, 1989. In compliance with Government Code section 17558, the SCO issues claiming instructions to assist school districts in claiming mandated program reimbursable costs.

Objective, Scope, and Methodology

We conducted the audit to determine whether costs claimed represent increased costs resulting from the Health Fee Elimination Program for the period of July 1, 2002, through June 30, 2006.

Our audit scope included, but was not limited to, determining whether costs claimed were supported by appropriate source documents, were not funded by another source, and were not unreasonable and/or excessive.

We conducted this performance audit under the authority of Government Code sections 12410, 17558.5, and 17561. We did not audit the district's financial statements. We conducted the audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

We limited our review of the district's internal controls to gaining an understanding of the transaction flow and claim preparation process as necessary to develop appropriate auditing procedures.

Conclusion

Our audit disclosed instances of noncompliance with the requirements outlined above. These instances are described in the accompanying Summary of Program Costs (Schedule 1) and in the Findings and Recommendations section of this report.

For the audit period, Palomar Community College District claimed \$766,322 for costs of the Health Fee Elimination Program. Our audit disclosed that \$52,018 is allowable and \$714,304 is unallowable.

For the FY 2002-03 claim, the State paid the district \$118,053. Our audit disclosed that the claimed costs are unallowable. The State will offset that amount from other mandated program payments due the district. Alternatively, the district may remit this amount to the State.

For the FY 2003-04 claim, the State made no payment to the district. Our audit disclosed that the claim costs are unallowable.

For the FY 2004-05 claim, the State made no payment to the district. Our audit disclosed that \$52,018 is allowable. The State will pay that amount contingent upon available appropriations.

For the FY 2005-06 claim, the State made no payment to the district. Our audit disclosed that the claimed costs are unallowable.

**Views of
Responsible
Official**

We issued a draft audit report on August 31, 2010. Bonnie Ann Dowd, Ed.D., Assistant Superintendent/Vice President, Finance and Administrative Services, responded by letter dated October 14, 2010 (Attachment), agreeing with Finding 2 and disagreeing with the remaining audit results. This final audit report includes the district's response.

Restricted Use

This report is solely for the information and use of Palomar Community College District, the California Community Colleges Chancellor's Office, the California Department of Finance, and the SCO; it is not intended to be and should not be used by anyone other than these specified parties. This restriction is not intended to limit distribution of this report, which is a matter of public record.

Original signed by

JEFFREY V. BROWNFIELD
Chief, Division of Audits

November 30, 2010

Schedule 1— Summary of Program Costs July 1, 2002, through June 30, 2006

Cost Elements	Actual Costs Claimed	Allowable per Audit	Audit Adjustment	Reference ¹
<u>July 1, 2002, through June 30, 2003</u>				
Direct costs:				
Salaries	\$ 407,787	\$ 412,176	\$ 4,389	Finding 1
Benefits	94,984	95,228	244	Finding 1
Services and supplies	24,080	48,010	23,930	Finding 1
Total direct costs	526,851	555,414	28,563	
Indirect costs	147,413	85,034	(62,379)	Finding 2
Total direct and indirect costs	674,264	640,448	(33,816)	
Less authorized health service fees	(553,813)	(752,346)	(198,533)	Finding 4
Less offsetting savings/reimbursements	(2,398)	(67,632)	(65,234)	Finding 5
Subtotal	118,053	(179,530)	(297,583)	
Audit adjustments that exceed costs claimed	—	179,530	179,530	
Total program costs	<u>\$ 118,053</u>	—	<u>\$ (118,053)</u>	
Less amount paid by the State		(118,053)		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ (118,053)</u>		
<u>July 1, 2003, through June 30, 2004</u>				
Direct costs:				
Salaries	\$ 413,244	\$ 418,284	\$ 5,040	Finding 1
Benefits	124,206	124,516	310	Finding 1
Services and supplies	54,876	77,289	22,413	Finding 1
Total direct costs	592,326	620,089	27,763	
Indirect costs	157,796	86,068	(71,728)	Finding 2
Total direct and indirect costs	750,122	706,157	(43,965)	
Less authorized health service fees	(578,988)	(733,260)	(154,272)	Finding 4
Less offsetting savings/reimbursements	(288)	(47,279)	(46,991)	Finding 5
Subtotal	170,846	(74,382)	(245,228)	
Audit adjustments that exceed costs claimed	—	74,382	74,382	
Total program costs	<u>\$ 170,846</u>	—	<u>\$ (170,846)</u>	
Less amount paid by the State		—		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ —</u>		

Schedule 1 (continued)

Cost Elements	Actual Costs Claimed	Allowable per Audit	Audit Adjustment	Reference ¹
<u>July 1, 2004, through June 30, 2005</u>				
Direct costs:				
Salaries	\$ 460,226	\$ 467,471	\$ 7,245	Finding 1
Benefits	159,669	160,137	468	Finding 1
Services and supplies	45,989	70,107	24,118	Finding 1
Total direct costs	665,884	697,715	31,831	
Indirect costs	183,584	164,521	(19,063)	Finding 2
Total direct and indirect costs	849,468	862,236	12,768	
Less authorized health service fees	(608,635)	(765,111)	(156,476)	Findings 3, 4
Less offsetting savings/reimbursements	—	(45,107)	(45,107)	Finding 5
Total program costs	<u>\$ 240,833</u>	52,018	<u>\$ (188,815)</u>	
Less amount paid by the State		—		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 52,018</u>		
<u>July 1, 2005, through June 30, 2006</u>				
Direct costs:				
Salaries	\$ 464,395	\$ 464,395	\$ —	
Benefits	154,959	154,959	—	
Services and supplies	125,215	125,215	—	
Total direct costs	744,569	744,569	—	
Indirect costs	189,716	184,579	(5,137)	Finding 2
Total direct and indirect costs	934,285	929,148	(5,137)	
Less authorized health service fees	(697,695)	(890,721)	(193,026)	Findings 3, 4
Less offsetting savings/reimbursements	—	(43,403)	(43,403)	Finding 5
Subtotal	236,590	(4,976)	(241,566)	
Audit adjustments that exceed costs claimed	—	4,976	4,976	
Total program costs	<u>\$ 236,590</u>	—	<u>\$ (236,590)</u>	
Less amount paid by the State		—		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ —</u>		

Schedule 1 (continued)

<u>Cost Elements</u>	<u>Actual Costs Claimed</u>	<u>Allowable per Audit</u>	<u>Audit Adjustment</u>	<u>Reference ¹</u>
<u>Summary: July 1, 2002, through June 30, 2006</u>				
Direct costs:				
Salaries	\$ 1,745,652	\$ 1,762,326	\$ 16,674	
Benefits	533,818	534,840	1,022	
Services and supplies	250,160	320,621	70,461	
Total direct costs	2,529,630	2,617,787	88,157	
Indirect costs	678,509	520,202	(158,307)	
Total direct and indirect costs	3,208,139	3,137,989	(70,150)	
Less authorized health service fees	(2,439,131)	(3,141,438)	(702,307)	
Less offsetting savings/reimbursements	(2,686)	(203,421)	(200,735)	
Subtotal	766,322	(206,870)	(973,192)	
Audit adjustments that exceed costs claimed	—	258,888	258,888	
Total program costs	<u>\$ 766,322</u>	52,018	<u>\$ (714,304)</u>	
Less amount paid by the State		(118,053)		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ (66,035)</u>		

¹ See the Findings and Recommendations section.

Findings and Recommendations

FINDING 1— Understated salaries, benefits, and services and supplies

For fiscal year (FY) 2002-03 through FY 2004-05, the district understated salaries, benefits, and services and supplies by \$88,157. The district understated costs because it did not claim mandate-related costs that it identified in three separate cost centers: Physical Exams, Community Relations, and Employee Clinic. The district also understated offsetting savings/reimbursements related to these cost centers; this issue is discussed in Finding 5.

- The Physical Exams cost center includes costs for both services that the district provided in the base year (base year services) and additional services that it did not provide in the base year (excess services). The district did not segregate expenses and revenues attributable to base year services versus excess services. Therefore, we identified all Physical Exams cost center expenses as understated costs in this finding and all revenue as understated offsetting savings/reimbursements in Finding 5.
- The Community Relations cost center includes costs for providing tuberculosis (TB) testing services to non-students. The district reported that it provided TB tests during the base year. Therefore, the district's mandated cost claim should include both the expenses and revenues attributable to the TB tests.
- The Employee Clinic cost center provides service to district employees, including registered nurse visits, TB tests, and flu vaccinations. The district reported that it provided these services during the base year. Therefore, the district's mandated cost claim should include both the expenses and revenue attributable to these services.

The following table summarizes the audit adjustment:

Cost Center	Project Grant No.	Fiscal Year			Total
		2002-03	2003-04	2004-05	
Salaries:					
Employee Clinic	0811601	\$ 4,389	\$ 5,040	\$ 7,245	\$ 16,674
Benefits:					
Employee Clinic	0811601	244	310	468	1,022
Services and supplies:					
Physical Exams	0811050	20,439	18,555	18,983	57,977
Community Relations	0811600	400	100	583	1,083
Employee Clinic	0811601	3,091	3,758	4,552	11,401
Total, services and supplies		23,930	22,413	24,118	70,461
Audit adjustment		\$ 28,563	\$ 27,763	\$ 31,831	\$ 88,157

The program's parameters and guidelines include the following provisions:

Community college districts which provided health services in 1986-87 fiscal year and continue to provide the same services as a result of this mandate are eligible to claim reimbursement of those costs.

Actual costs for one fiscal year should be included in each claim. . . .

For auditing purposes, all costs claimed must be traceable to source documents and/or worksheets that show evidence of the validity of such costs. . . .

Any offsetting savings the claimant experiences as a direct result of this statute must be deducted from the costs claimed. In addition, reimbursement for this mandate received from any source, e.g., federal, state, etc., shall be identified and deducted from this claim. . . .

Recommendation

We recommend that the district claim all mandate-related costs that its accounting records support.

District's Response

We agree that we should claim all mandate-related costs that our accounting records support, however, we disagree that the three areas outlined in this finding . . . should be considered mandate-related. In no way should costs, or the related revenue (that is the revenue received from sources other than student fees), for employees or outside community members be related to a mandate for health care for students, especially one that is funded for and by the students. Several years ago the district conscientiously separated any and all costs related to providing employee physical exam, other employee health care related items, as well as any costs that the district provided to the community at large. These separate cost centers should not be included in any costs associated with the health fee that is funded by the students.

SCO's Comment

Our finding and recommendation are unchanged. Education Code section 76355, subdivision (e), states:

Any community college district that provided health services in the 1986-87 fiscal year shall maintain health services, at the level provided during the 1986-87 fiscal year, and each fiscal year thereafter. If the cost to maintain that level of service exceeds the limits specified in subdivision (a) [student health fees], the excess cost shall be borne by the district.

Similarly, the parameters and guidelines state:

Community college districts which provided health services in 1986-87 fiscal year and continue to provide the same services as a result of this mandate are eligible to claim reimbursement of those costs.

Neither the Education Code nor the parameters and guidelines specify health services provided *to students*; rather, they simply require the district to provide the same services that it provided during FY 1986-87. The parameters and guidelines also state:

Actual costs for one fiscal year should be included in each claim. . . .

For auditing purposes, all costs claimed must be traceable to source documents and/or worksheets that show evidence of the validity of such costs. . . .

Any offsetting savings the claimant experiences as a direct result of this statute must be deducted from the costs claimed. In addition, reimbursement for this mandate received from any source, e.g., federal, state, etc., shall be identified and deducted from this claim. . . .

In each of the three cost centers, the district provided health services that it also provided during FY 1986-87. Therefore, the district's mandated cost claim should include both the expenses and revenue attributable to those services. For the Physical Exams cost center, the district did not segregate base year services from excess services. Because Physical Exams cost center revenue exceeded expenses, we identified all expenses as understated costs in this finding and all revenue as understated offsetting savings/reimbursements in Finding 5.

FINDING 2— Overstated indirect costs

The district overstated indirect costs by \$158,307.

For FY 2002-03 and FY 2003-04, the district claimed indirect costs based on indirect cost rates that it prepared using the principles of Title 2, *Code of Federal Regulations*, Part 220 (Office of Management and Budget Circular A-21). However, the district did not obtain federal approval for these rates.

The district did not provide its indirect cost rate proposals for FY 2004-05 and FY 2005-06. The parameters and guidelines and the SCO's claiming instructions allow districts to use only the FAM-29C methodology for these fiscal years.

We calculated each fiscal year's allowable indirect cost rate using the SCO's FAM-29C methodology. We applied each fiscal year's allowable rate to the corresponding allowable direct costs.

The following table summarizes the audit adjustment:

	Fiscal Year				Total
	2002-03	2003-04	2004-05	2005-06	
Allowable direct costs	\$ 555,414	\$ 620,089	\$ 697,715	\$ 744,569	
Allowable indirect cost rate	× 15.31%	× 13.88%	× 23.58%	× 24.79%	
Allowable indirect costs	85,034	86,068	164,521	184,579	
Indirect costs claimed	(147,413)	(157,796)	(183,584)	(189,716)	
Audit adjustment	\$ (62,379)	\$ (71,728)	\$ (19,063)	\$ (5,137)	\$(158,307)

The parameters and guidelines state:

Indirect costs may be claimed in the manner described by the State Controller in his claiming instructions.

For FY 2002-03 and FY 2003-04, the SCO's claiming instructions state:

A college has the option of using a federally approved rate, utilizing the cost accounting principles from Office of Management and Budget Circular A-21 "Cost Principles for Educational Institutions," or the Controller's [FAM-29C] methodology

For FY 2004-05 forward, the SCO's claiming instructions state:

A CCD [community college district] may claim indirect costs using the Controller's methodology (FAM-29C)... If specifically allowed by a mandated program's P's & G's [parameters and guidelines], a district may alternately choose to claim indirect costs using either (1) a federally approved rate prepared in accordance with Office of Management and Budget (OMB) Circular A-21, *Cost Principles for Educational Institutions*; or (2) a flat 7% rate.

Recommendation

We recommend that the district claim Health Fee Elimination Program indirect costs based on indirect cost rates computed in accordance with the SCO's FAM-29C methodology.

District's Response

The district concurred with the finding.

FINDING 3— Offsetting savings/ reimbursements incorrectly reported as authorized health service fees

For FY 2005-06, the district incorrectly reported offsetting savings/reimbursements totaling \$31,923 as authorized health service fees. This amount was primarily attributable to the Physical Exams cost center. We identified this amount as understated offsetting savings/reimbursements in Finding 5.

The following table summarizes the audit adjustment and the adjusted authorized health service fees claimed:

Cost Center	Project Grant No.	Fiscal Year		Total
		2004-05	2005-06	
Health Services	1812090	\$ (75)	\$ (900)	
Physical Exams	0811050	—	32,888	
Employee Clinic	0811601	—	10	
Audit adjustment		(75)	31,998	<u>\$ 31,923</u>
Less authorized health service fees claimed		<u>(608,635)</u>	<u>(697,695)</u>	
Adjusted authorized health service fees claimed		<u>\$ (608,710)</u>	<u>\$ (665,697)</u>	

The parameters and guidelines state, “Reimbursement for this mandate received from any source, e.g., federal, state, etc., shall be identified and deducted from this claim.” The SCO’s claiming instructions direct claimants to separately report authorized health service fees and other reimbursements.

Recommendation

We recommend that the district properly claim revenue as offsetting savings/reimbursements when the revenue is unrelated to the authorized student health fee.

District’s Response

Our response to this finding is related to our response to Finding 1 – we disagree that these cost centers should be included. This is further bolstered by the statement in the recommendation above: “when the revenue is unrelated to the authorized student health fee.” Our position, in fact, is supported by Section 54702 of the Title 5, California Code of regulations that states: “Nothing within these provisions shall prevent an exclusive service to a select group of students or service to the college faculty or staff; **however, these services must be supported from sources other than the student fee.**” This helps to support our view that the revenue, as well as the expense, from the Physical Exams, Community Relations, and the Employee Clinic cost centers should not be included.

SCO’s Comment

Based on the district’s response to Finding 5, we revised this finding to identify a \$75 debit amount that the district incorrectly reported as authorized health service fees. Our recommendation is unchanged. This finding simply discloses that the district reported authorized health service fees that erroneously included separate offsetting savings/reimbursements. The district’s comments do not address the factual accuracy of this finding; instead, they respond to issues identified in Finding 5 and addressed in our comments to Finding 1.

In Finding 1, our comments address the inclusion of expenses and revenue for the three separate “cost centers” (Physical Exams, Community Relations, and Employee Clinic).

The district quotes our recommendation out of context. We disagree that our recommendation bolsters the district’s position. Our recommendation clearly states that the revenue should be reported as offsetting savings/reimbursements.

The parameters and guidelines require the district to provide the same services that it provided during FY 1986-87; they do not limit those services to students only. The district’s cost centers provided services that the district provided during FY 1986-87; therefore, those expenses are mandate-related. Similarly, the parameters and guidelines require the district to deduct any mandate-related offsetting savings/reimbursements from costs claimed. The district believes that Title 5, California Code of Regulations (CCR), section 54702 supports its position to exclude the

cost centers' revenues and expenses from its mandated cost claims. The district's position is summarized by its statement that, "These separate cost centers should not be included in any costs associated with the health fee that is funded by the students." Essentially, the district believes that it should not include the cost centers' expenses (and thus the related revenues) in its mandated cost claims because Title 5, CCR, Section 54702, does not allow the district to fund those expenses from student health service fees. The following table shows the district's health service direct costs (excluding cost centers' expenses), related indirect costs based on the allowable indirect cost rates identified in Finding 2, and student health service fees collected for each fiscal year:

Cost Elements	Fiscal Year			
	2002-03	2003-04	2004-05	2005-06
Direct costs (excluding cost centers)	\$ 526,851	\$ 592,326	\$ 665,884	\$ 664,744
Indirect costs	80,661	82,215	157,015	164,790
Total direct and indirect costs	607,512	674,541	822,899	829,534
Student health service fees collected	(553,813)	(578,988)	(608,710)	(665,697)
Total direct and indirect costs exceeding (less than) student health service fees collected	\$ 53,699	\$ 95,553	\$ 214,189	\$ 163,837

The district's health service direct and indirect costs (excluding cost centers' expenses) exceeded student health service fee revenue during each fiscal year. Therefore, Title 5, CCR, Section 54702 is irrelevant. The district's records show that student health service fees did not fund the cost centers' expenses.

**FINDING 4—
Understated
authorized health
service fees**

The district understated authorized health service fees by \$734,230. The district understated these fees because it reported actual receipts rather than authorized fees. In addition, the district did not charge all students the full authorized fee amount for the 2005 summer session and fall semester. The district also voluntarily waived the health service fee for the following students: active-duty military students taking classes at Camp Pendleton, students in community development seminars, and students enrolled in non-credit classes at sites other than the San Marcos campus and the Escondido Center.

Mandated costs do not include costs that are reimbursable from authorized fees. Government Code section 17514 states that "costs mandated by the state" means any increased costs that a school district is *required* to incur. To the extent community college districts can charge a fee, they are not required to incur a cost. In addition, Government Code section 17556 states that the Commission on State Mandates shall not find costs mandated by the State if the school district has the authority to levy fees to pay for the mandated program or increased level of service.

For the period of July 1, 2002, through December 31, 2005, Education Code section 76355, subdivision (c), states that health fees are authorized for all students except those who: (1) depend exclusively on prayer for

healing; (2) are attending a community college under an approved apprenticeship training program; or (3) demonstrate financial need. Effective January 1, 2006, only Education Code section 76355, subdivisions (c)(1) and (2) are applicable.

The California Community Colleges Chancellor's Office (CCCCO) identified the fees authorized by Education Code section 76355, subdivision (a). The following table summarizes the authorized fees:

Fiscal Year	Authorized Health Fee Rate	
	Fall and Spring Semesters	Summer Session
2002-03	\$12	\$9
2003-04	\$12	\$9
2004-05	\$13	\$10
2005-06	\$14	\$11

We obtained student enrollment, Board of Governors Grant (BOGG) recipient, and apprenticeship program enrollee data from the CCCCCO. The CCCCCO identified enrollment and BOGG recipient data from its management information system (MIS) based on student data that the district reported. CCCCCO identified the district's enrollment based on CCCCCO's MIS data element STD7, codes A through G. CCCCCO eliminated any duplicate students based on their social security numbers. From the district enrollment, CCCCCO identified the number of BOGG recipients based on MIS data element SF21, all codes with first letter of B or F. CCCCCO also identified the number of apprenticeship program enrollees based on its data element SB23, code 1. CCCCCO data element and code definitions are available at <http://www.cccco.edu/SystemOffice/Divisions/TechResearchInfo/MIS/DED/tabid/266/Default.aspx>. The district did not identify any students that it excluded from the health service fee pursuant to Education Code section 76355, subdivision (c)(1).

The following table shows the authorized health service fee calculation and audit adjustment:

	Summer Session	Fall Semester	Spring Semester	Total
<u>Fiscal Year 2002-03</u>				
Number of enrolled students	16,871	31,095	29,823	
Less number of BOGG recipients	(1,618)	(3,619)	(3,263)	
Less number of apprenticeship program enrollees	(383)	(1,190)	(1,303)	
Subtotal	14,870	26,286	25,257	
Authorized health fee rate	× \$(9)	× \$(12)	× \$(12)	
Authorized health service fees	<u>\$ (133,830)</u>	<u>\$ (315,432)</u>	<u>\$ (303,084)</u>	\$ (752,346)
Less authorized health service fees claimed				<u>553,813</u>
Audit adjustment, FY 2002-03				<u>(198,533)</u>

	Summer Session	Fall Semester	Spring Semester	Total
<u>Fiscal Year 2003-04</u>				
Number of enrolled students	17,233	30,218	30,024	
Less number of BOGG recipients	(1,683)	(3,802)	(3,666)	
Less number of apprenticeship program enrollees	(326)	(1,476)	(1,611)	
Subtotal	15,224	24,940	24,747	
Authorized health fee rate	× \$(9)	× \$(12)	× \$(12)	
Authorized health service fees	<u>\$(137,016)</u>	<u>\$(299,280)</u>	<u>\$(296,964)</u>	(733,260)
Less authorized health service fees claimed				578,988
Audit adjustment, FY 2003-04				<u>(154,272)</u>
<u>Fiscal Year 2004-05</u>				
Number of enrolled students	15,961	30,410	30,138	
Less number of BOGG recipients	(1,953)	(4,546)	(4,347)	
Less number of apprenticeship program enrollees	(413)	(1,716)	(1,542)	
Subtotal	13,595	24,148	24,249	
Authorized health fee rate	× \$(10)	× \$(13)	× \$(13)	
Authorized health service fees	<u>\$(135,950)</u>	<u>\$(313,924)</u>	<u>\$(315,237)</u>	(765,111)
Less adjusted authorized health service fees claimed (Finding 3)				608,710
Audit adjustment, FY 2004-05				<u>(156,401)</u>
<u>Fiscal Year 2005-06</u>				
Number of enrolled students	16,342	30,401	29,853	
Less number of BOGG recipients	(1,957)	(4,715)	—	
Less number of apprenticeship program enrollees	(296)	(1,521)	(1,465)	
Subtotal	14,089	24,165	28,388	
Authorized health fee rate	× \$(11)	× \$(14)	× \$(14)	
Authorized health service fees	<u>\$(154,979)</u>	<u>\$(338,310)</u>	<u>\$(397,432)</u>	(890,721)
Less adjusted authorized health service fees claimed (Finding 3)				665,697
Audit adjustment, FY 2005-06				<u>(225,024)</u>
Total audit adjustment				<u>\$(734,230)</u>

Recommendation

We recommend that the district:

- Deduct authorized health service fees from mandate-related costs claimed. To properly calculate authorized health service fees, we recommend that the district identify the number of enrolled students based on CCCCCO data element STD7, codes A through G.
- Identify the number of apprenticeship program enrollees based on data elements SB23, code 1, and STD7, codes A through G.
- Eliminate duplicate entries for students who attend more than one college within the district.
- Maintain documentation that identifies the number of students excluded from the health service fee based on Education Code section 76355, subdivision (c)(1).
- Charge students the authorized fee amount for each school term.
- Waive the health service fee only for those students specified in Education Code section 76355, subdivision (c).

District's Response

We realize that throughout the years the district made decisions to not charge all students the health fee based on certain criteria, and that those criteria do not meet the specifications in the Education Code. However, the Education Code in regards to mandated claims should be updated (or an amendment made to the program's parameters and guidelines) to exclude those students who exclusively take classes on line. These students, especially the military at Camp Pendleton, are taking distance education classes and are not physically on campus. The added cost associated with charging these students for a service they are not using could affect their decision to attend college. This violates the very spirit of community colleges, who strive to provide services to its entire constituency, including many who could not normally afford to attend higher learning institutions.

SCO's Comment

We revised the amount shown for FY 2004-05 authorized health service fees claimed from \$608,635 to \$608,710, based on the revision to Finding 3. Our recommendation is unchanged. Education Code section 76355, subdivision (c), specifies those students who are exempt from the authorized health service fee. If the district believes that the Education Code section is deficient, it should pursue legislation through its elected representatives to amend the statutory provisions accordingly. The parameters and guidelines may not be amended unless the statutory provisions are amended.

**FINDING 5—
Understated offsetting
savings/reimbursements**

The district understated offsetting savings/reimbursements by \$200,735. The district did not claim revenue received for various health services that it provided during the audit period. The district reported this revenue primarily in the Physical Exams, Community Relations, and Employee Clinic cost centers. Refer to Finding 1 for additional information regarding these cost centers. The district also did not report contributions/gifts/grants revenue received that it posted in the Defibrillators cost center.

The following table summarizes the audit adjustment:

Cost Center	Project Grant No.	Fiscal Year				Total
		2002-03	2003-04	2004-05	2005-06	
Health Services	1812090	\$ (2,398)	\$ 288	\$ 75	\$ 900	\$ (1,135)
Physical Exams	0811050	(33,985)	(33,469)	(35,564)	(32,887)	(135,905)
Community Relations	0811600	(1,116)	(624)	(620)	(853)	(3,213)
Employee Clinic	0811601	(30,133)	(13,474)	(8,998)	(6,285)	(58,890)
Defibrillators	1812303	—	—	—	(4,278)	(4,278)
Total offsetting savings/reimbursements		(67,632)	(47,279)	(45,182)	(43,403)	(203,421)
Less: other reimbursements claimed		2,398	288	—	—	2,686
Audit adjustment		<u>\$ (65,234)</u>	<u>\$ (46,991)</u>	<u>\$ (45,107)</u>	<u>\$ (43,403)</u>	<u>\$ (200,735)</u>

The parameters and guidelines state:

Any offsetting savings the claimant experiences as a direct result of this statute must be deducted from the costs claimed. In addition, reimbursement for this mandate received from any source, e.g., federal, state, etc., shall be identified and deducted from this claim.

Recommendation

We recommend that the district report all offsetting savings/reimbursements on its mandated cost claims.

District's Response

Above and beyond our position that we object to including costs and/or revenue from the Physical Exams, Community Relations and Employee Clinic cost centers, we object to the Defibrillator cost center being included. The defibrillators clearly represent an excess service, or one that was not provided in the base year and all costs and/or revenue should definitely be excluded.

On an accuracy note, in Fiscal Year 2004-05, there is \$75 that is not included in the line for the Health Services, project grant 1812090. That would decrease the audit adjustment by \$75.

SCO's Comment

Based on the district's response, we revised the audit finding to reflect a \$75 debit adjustment to the Health Services cost center in FY 2004-05. Our recommendation is unchanged. Regarding the Defibrillator cost center offsetting savings/reimbursement, we disagree on two points:

- In FY 2005-06, the district claimed services and supplies costs totaling \$125,215. Of this amount, the district claimed \$18,585 from the Defibrillator cost center. The parameters and guidelines require the district to deduct the related offsetting savings/reimbursement from costs claimed.
- We disagree that the defibrillators "clearly represent an excess service, or one that was not provided in the base year." A defibrillator is not a "service," it is equipment used to provide a service. A defibrillator is an instrument that delivers an electric shock to an individual's heart under emergency conditions. In all fiscal years, the district reported that it provided the service of "First Aid, Major Emergencies" in both the base year and the claim year. Therefore, we allowed the expense that the district claimed and reported an audit adjustment for the understated offsetting savings/reimbursement. If we had concluded that the defibrillator was an "excess service," we would have reported an audit adjustment for unallowable services and supplies totaling \$18,585.

**Attachment—
District's Response to
Draft Audit Report**



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Robert P. Deegan
Superintendent/President

October 14, 2010

Governing Board
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Bonnie Ann Dowd, Ed.D.
Assistant Superintendent /
Vice President
Finance & Administrative
Services

RE: Health Fee Elimination Program
July 1, 2002, through June 30, 2006

Dear Mr. Spano:

We have received the results of the audit of our Health Fee Elimination Program for the period of July 1, 2002, through June 30, 2006. We have reviewed the findings, the accuracy of the numbers, and the corresponding effects the findings will have on our claims for those years. As a result of our review, we have the following comments regarding the findings:

Finding 1 – Understated salaries, benefits, and services and supplies

Recommendation

We recommend that the district claim all mandate-related costs that its accounting records support.

District Response

We agree that we should claim all mandate-related costs that our accounting records support, however, we disagree that the three areas outlined in this finding i.e. Physical Exams, Community Relations, and Employee Clinics should be considered mandate-related. In no way should costs, or the related revenue (that is the revenue received from sources other than student fees), for employees or outside community members be related to a mandate for health care for students, especially one that is funded for and by the students. Several years ago the district conscientiously separated any and all costs related to providing employee physical exams, other employee health care related items, as well as any costs that the district provided to the community at large. These separate costs centers should not be included in any costs associated with the health fee that is funded by the students.

Finding 2 – Overstated indirect costs

Recommendation

We recommend that the district claim Health Fee Elimination Program indirect costs based on indirect cost rates computed in accordance with the SCO's FAM-29C methodology.

District Response

We concur with this finding.

Finding 3 – Offsetting savings/reimbursements incorrectly reported as authorized health service fees

Recommendation

We recommend that the district properly claim revenue as offsetting savings/reimbursements when the revenue is unrelated to the authorized student health fee.

District Response

Our response to this finding is related to our response to Finding 1 – we disagree that these cost centers should be included. This is further bolstered by the statement in the recommendation above: “when the revenue is unrelated to the authorized student health fee.” Our position, in fact, is supported by Section 54702 of the Title 5, California Code of regulations that states: “Nothing within these provisions shall prevent an exclusive service to a select group of students or service to the college faculty or staff; **however, these services must be supported from sources other than the student fee.**” This helps to support our view that the revenue, as well as the expense, from the Physical Exams, Community Relations, and the Employee Clinic cost centers should not be included.

Finding 4 – Understated authorized health service fees

Recommendation

We recommend that the district:

- Deduct authorized health service fees from mandate-related costs claimed. To properly calculate authorized health service fees, we recommend that the district identify the number of enrolled students based on CCCCCO data element STD7, codes A through G.
- Identify the number of apprenticeship program enrollees based on data elements SB23, code 1, and STD7, codes A through G.
- Eliminate duplicate entries for students who attend more than one college within the district.

- Maintain documentation that identifies the number of students excluded from the health service fee based on Education Code section 76355, subdivision (c)(1).
- Charge students the authorized fee amount for each school term.
- Waive the health service fee only for those students specified in Education Code section 76355, subdivision (c).

District Response

We realize that throughout the years the district made decisions to not charge all students the health fee based on certain criteria, and that those criteria do not meet the specifications in the Education Code. However, the Education Code in regards to mandated claims should be updated (or an amendment made to the program's parameters and guidelines) to exclude those students who exclusively take classes on line. These students, especially the military at Camp Pendleton, are taking distance education classes and are not physically on campus. The added cost associated with charging these students for a service they are not using could affect their decision to attend college. This violates the very spirit of community colleges, who strive to provide services to its entire constituency, including many who could not normally afford to attend higher learning institutions.

Finding 5 – Understated offsetting savings/reimbursements

Recommendation

We recommend that the district report all offsetting savings/reimbursements on its mandated cost claims.

District Response

Above and beyond our position that we object to including costs and/or revenue from the Physical Exams, Community Relations and Employee Clinic cost centers, we object to the Defibrillator cost center being included. The defibrillators clearly represent an excess service, or one that was not provided in the base year and all costs and/or revenue should definitely be excluded.

On an accuracy note, in Fiscal Year 2004-05, there is \$75 that is not included in the line for the Health Services, project grant 1812090. That would decrease the audit adjustment by \$75.

Conclusion

Even though there are several areas where the district disagrees with the findings of the State Controller's Office, we would like to commend the professionalism and attitude of Christine Kwong, the onsite auditor. She represents your office very well.

We appreciate the opportunity to respond to your findings, and look forward to having our comments and their corresponding adjustments to the unallowable costs reflected in the final report.

Sincerely,

A handwritten signature in blue ink, reading "Bonnie Ann Dowd".

Bonnie Ann Dowd, Ed.D.
Assistant Superintendent/Vice President
Finance & Administrative Services
Palomar Community College District

cc: President Deegan
Phyllis Laderman, Director, Fiscal Services

**State Controller's Office
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